LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6659 **NOTE PREPARED:** Jan 14, 2007
BILL NUMBER: HB 1622 **BILL AMENDED:**

SUBJECT: Elimination of Sales Tax on gasoline.

FIRST AUTHOR: Rep. Oxley **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill eliminates the Gross Retail Tax (Sales Tax) on gasoline.

Effective Date: July 1, 2007.

Explanation of State Expenditures: This bill will result in a cost savings for the Department of State Revenue (DOR). The DOR will no longer be required to collect and administer the Sales Tax on gasoline (the definition of gasoline used in this bill does not include diesel fuel). The amount of the savings is indeterminable.

Sales Tax on gasoline is collected differently than Sales Tax on other purchases. By statute, retailers are required to prepay the Sales Tax on gasoline. The prepayment rate is equal to the statewide average price per gallon, multiplied by the Sales Tax rate, multiplied by 90%. The prepayment rate is determined semiannually (in June and December) by the DOR, and is limited to 125% of the previous prepayment rate. Retail merchants are then required to file their returns monthly and remit Sales Tax which has been collected on the gasoline, less the amount of prepaid tax.

The bill provides that the DOR must establish temporary rules to facilitate the refund of prepayments made for a reporting period before July 1, 2007, for gasoline that is purchased or shipped for retail sale after June 30, 2007.

Explanation of State Revenues: *Summary:* This bill will decrease state revenues by between an estimated \$325 M and \$358.5 M annually by eliminating the Sales Tax on gasoline (the definition of gasoline used in this bill does not include diesel fuel). There will be an estimated loss of between \$328.3 M and \$361.7 M in Sales Tax revenue, and an estimated gain of $3.2 M in state Gasoline Tax revenues. The increase in state Gasoline Tax revenue is a result of the estimated increase in gallons sold because of the pump price decrease that would occur by eliminating the Sales Tax on gasoline. The bill also prohibits a retailer from including any amount for state Sales Tax in the price for gasoline at a metered pump.

Background: The low range of the estimate above is based on the Energy Information Association's *Short Term Energy Outlook* estimate of Midwest gas prices (excluding taxes) for CY 2007 and CY 2008. The EIA estimates that Midwest gas prices will be just under $2 after subtracting state and federal gas taxes. The high end of the estimate above assumes that gas prices will remain equal to the FY 2006 average pump price as implied from retailer returns submitted on form ST-103MP. The implied average pump price for FY 2006 was $2.47. The average implied Sales Tax paid per gallon for FY 2006 was $0.119, which represents a blending of the prepayment rate and the 6% Sales Tax rate paid on non-prepaid taxable gallons.

The table below illustrates the revenue loss for each fund included in the Sales Tax distribution formula.

Fund	**Revenue Impact (in millions)**	**Revenue Impact (in millions)**
	Low Range	**High Range**
Property Tax Replacement Fund	($ 164.2)	($ 180.9)
State General Fund	(161.5)	(177.9)
Public Mass Transportation Fund	(2.1)	(2.3)
Commuter Rail Service Fund	(0.5)	(0.5)
Industrial Rail Service Fund	(0.1)	(0.1)
Total	**($ 328.3)**	**($ 361.7)**

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill will result in an increase in local revenues. A portion of the $3.2 increase in Gasoline Tax revenue will be distributed to local governments according to the Motor Vehicle Highway Account and the Local Road & Street Account distribution formulas.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units and recipients of Gasoline Tax revenues.

Information Sources: Bob Lain, State Budget Agency, 317-232-3471. www.eia.doe.gov

Fiscal Analyst: Adam Brown, 317-232-9854.